

**MILFORD MUNICIPAL UTILITIES**

INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
JUNE 30, 2011

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MILFORD MUNICIPAL UTILITIES  
MILFORD, IOWA

JUNE 30, 2011

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
James Studer	Trustee	December 31, 2013
Steve Feld	Trustee (Vice Chairman)	December 31, 2012
Keith Wurtz	Trustee	December 31, 2014
Tom Cooper	Trustee (Chairman)	December 31, 2015
Don Olsen	Trustee	December 31, 2011
Eric Stoll	General Manager	
Paula Nordblad	Office Manager / Board Secretary	

**WINTHER, STAVE & CO., LLP**  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Milford Municipal Utilities  
Milford, IA 51351

We have audited the accompanying financial statements of the business-type activities and each major fund of Milford Municipal Utilities (Utilities), a component unit of the City of Milford, as of and for the year ended June 30, 2011, which collectively comprise Milford Municipal Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Utilities' June 30, 2010 financial statements and, in our report dated November 1, 2010, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As more fully described in Note 8, the Utilities did not record or disclose the net annual required contribution for other postemployment benefits (OPEB) or the OPEB net obligation as required by GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions. The effect of this departure from accounting principles generally accepted in the United States of America on the financial statements of Milford Municipal Utilities is not reasonably determinable.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Milford Municipal Utilities at June 30, 2011, and the respective changes in the funds' financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *General Auditing Standards*, and should be considered in accessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 26 and 27 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the Utilities' basic financial statements for the year ended June 30, 2010 which are not fully presented with the accompanying financial statements. In our report dated November 1, 2010, we express unqualified opinions on the respective financial statements of each major fund. That audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Utilities' financial statements as a whole. The 2010 supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2010 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the 2010 supplementary information included in Schedules 1 and 2 is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Wintner, Starnes & Co., LLP

October 31, 2011

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Milford Municipal Utilities (MMU) provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### **2010 - 2011 FINANCIAL HIGHLIGHTS**

- MMU's operating revenues increased 3.87%, or \$132,335, from fiscal 2010 to fiscal 2011.
- Operating expenses increased by \$23,500 in fiscal 2011 from fiscal 2010.
- The MMU's net assets increased 4.74%, or \$431,127, during 2011.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the MMU's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of MMU as a whole and present an overall view of MMU's finances.

Fund financial statements report MMU's operations in more detail by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the MMU's budget for the year.

The Other Supplementary Information in Schedules 1 and 2 provides detailed information about the usage levels of each utility.

### **REPORTING MMU'S FINANCIAL ACTIVITIES**

#### **Fund Financial Statements**

Milford Municipal Utilities utilizes one kind of fund:

Proprietary funds account for MMU's Enterprise Funds. Enterprise Funds are used to report business type activities. MMU maintains two Enterprise funds to provide separate information for the electric and water funds, which are considered to be major funds of MMU.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in net assets.

Net Assets of Business Type Activities		
Year Ended June 30,	2011	2010
Current and other assets .....	\$ 2,532,884	\$ 2,943,156
Capital assets - net of depreciation .....	<u>11,907,410</u>	<u>11,333,146</u>
Total assets	<u>14,440,294</u>	<u>14,276,302</u>
Long-term debt outstanding .....	4,454,507	4,790,701
Other liabilities .....	<u>451,024</u>	<u>381,965</u>
Total liabilities	<u>4,905,531</u>	<u>5,172,666</u>
Net assets:		
Invested in capital assets .....	7,452,904	6,869,006
Restricted .....	217,627	368,081
Unrestricted .....	<u>1,864,232</u>	<u>1,866,549</u>
Total net assets	<u>\$ 9,534,763</u>	<u>\$ 9,103,636</u>

Changes in Net Assets of Business Type Activities		
Year Ended June 30,	2011	2010
Revenues:		
Total operating revenues .....	\$ 3,554,239	\$ 3,421,904
General revenues:		
Interest and other income .....	<u>18,931</u>	<u>25,613</u>
Total revenues	<u>3,573,170</u>	<u>3,447,517</u>
Program expenses:		
Business type activities .....	<u>3,142,043</u>	<u>3,258,654</u>
Total expenses	<u>3,142,043</u>	<u>3,258,654</u>
Change in net assets	431,127	188,863
Net assets - beginning of year .....	<u>9,103,636</u>	<u>8,914,773</u>
Net assets - end of year	<u>\$ 9,534,763</u>	<u>\$ 9,103,636</u>

## **INDIVIDUAL MAJOR FUND ANALYSIS**

- Electric Fund revenues showed an increase of \$132,768 due to increased sales to customers and increased Neal #4 and diesel credits. The Electric Fund expenses decreased \$97,124, attributable to the decrease in expense associated with community development and salaries and benefits. The ending fund balance was \$6,630,009, an increase of \$382,529 from last year.
- Water Fund revenues increased by \$2,466 during 2011 as compared to 2010. Expenses decreased \$19,487, which can be attributed to maintenance and interest expense as compared to the prior year. The ending fund balance was \$2,904,754, an increase of \$48,598 from the prior year.

## **BUDGETARY HIGHLIGHTS**

MMU's disbursements for business type activities did not exceed the budgeted limit for 2011.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2011, MMU had approximately \$11.9 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions net of depreciation) of \$574,264 or 5% as compared with last year. Depreciation charges totaled \$495,108 for the fiscal year 2011. Total accumulated depreciation was \$9,617,983 at June 30, 2011. See Note 3 to the financial statements for more information about MMU's capital assets.

### **LONG-TERM DEBT/LIABILITIES**

At June 30, 2011, MMU had \$4,454,507 in revenue bonds outstanding compared to \$4,790,701 at June 30, 2010. Additional information about MMU's long-term debt is presented in Note 4 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Milford Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

In 2009, the MMU electric department began installation of a new substation transformer along with a new industrial circuit and associated equipment in the substation. At June 30, 2011, this project was near completion and expected to be complete before winter. MMU is in the construction stage of building a 69kV transmission line. This will give the community a second source of power coming from the south. Cornbelt will cost share in this project. Work began in July 2011.

In order to comply with EPA mandates, MMU is expecting to be required to install catalytic converters on the three newer generators at a cost of \$300,000. MMU's portion of the cost to install scrubbers on the stacks at Neal #4 is expected to be \$900,000.

In 2011, the MMU water department is participating with the City of Milford in a utility and street upgrade on 6<sup>th</sup> Street.



Consistent with the need to invest for the future, MMU joined with other cities and utilities in 1962 to purchase power from the dams on the Missouri River. We have enjoyed receiving this renewable energy ever since. You could say that Milford had the foresight 47 years ago to invest in renewable energy. In 1976, MMU power supplies were once again getting tight and MMU needed to invest in an additional power source, so MMU became one of the owners of the Neal #4 Generating Station south of Sioux City. In 1997, MMU added 6 MW of diesel generators to the existing 1 MW of older generation in our local power plant, of which all are used for peaking and emergency power use. Once again, MMU joined with other Iowa utilities to take the lead in partnering in renewable energy sources by moving into wind generation. MMU has a share in the Hancock Wind Farm that was put up in 2005 south of Ventura, Iowa. MMU also has a share in the Crosswinds Wind Farm south of Ruthven, Iowa. This amounts to a combined total of 40% for renewable energy. MMU is looking into another wind farm from which we hope to receive an additional 5,025,800 kwh's per year which would give us a total of 20% Renewable Portfolio Standard (RPS) by 2020, which excludes the power from the dams. So you can see the goal is simple: try to use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment. Even with the additional wind resources, MMU will still need a reliable baseload or intermediate resource to cover our expected load growth, replace existing aging power supplies, and to cover periods when the wind doesn't blow. MMU is now exploring other options to ensure a safe, reliable backup to wind generation. This includes possible agreements with other power suppliers and the installation of natural gas powered turbines.

For the Water Department, we are doing a study in conjunction with the City of Milford to coordinate the replacement of water mains with the streets and sewer lines that need to be replaced.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MMU's finances and operating activities. If you have questions about this report or need additional information, please contact management at 806 N Ave., Milford, Iowa 51351.

## **BASIC FINANCIAL STATEMENTS**

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF NET ASSETS  
JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)

	<u>Business-Type Activities</u>	
	<u>2011</u>	<u>2010</u>
ASSETS:		
Cash and cash equivalents .....	\$ 1,019,178	\$ 1,087,453
Accounts receivable .....	368,848	372,689
Inventory .....	550,731	548,190
Other current assets .....	100,355	109,132
Restricted assets .....	462,448	786,621
Other assets .....	31,324	39,071
Other assets not being depreciated .....	2,960,448	2,144,390
Capital assets being depreciated - net of accumulated depreciation .....	<u>8,946,962</u>	<u>9,188,756</u>
TOTAL ASSETS	<u>14,440,294</u>	<u>14,276,302</u>
LIABILITIES:		
Accounts payable .....	307,773	239,928
Accrued interest .....	14,473	17,778
Salaries and benefits payable .....	55,470	49,331
Accrued expenses .....	31,442	32,904
Consumers' deposits .....	41,866	42,024
Long-term liabilities:		
Due or payable within one year:		
Revenue bonds/notes .....	485,772	463,989
Due or payable after one year:		
Revenue bonds/notes .....	<u>3,968,735</u>	<u>4,326,712</u>
TOTAL LIABILITIES	<u>4,905,531</u>	<u>5,172,666</u>
NET ASSETS:		
Invested in capital assets - net of related debt .....	<u>7,452,904</u>	<u>6,869,006</u>
Restricted, expendable:		
Debt service .....	64,388	179,109
Capital projects .....	<u>153,239</u>	<u>188,972</u>
Total restricted	<u>217,627</u>	<u>368,081</u>
Unrestricted .....	<u>1,864,232</u>	<u>1,866,549</u>
TOTAL NET ASSETS	<u>\$ 9,534,763</u>	<u>\$ 9,103,636</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)

	<u>Business-Type Activities</u>	
	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Residential .....	\$ 1,566,260	\$ 1,478,475
Commercial .....	860,383	837,507
Demand .....	508,696	501,391
Tank lot water sales .....	722	2,052
Meter sales .....	9,335	9,228
Public authorities .....	51,646	51,604
Water department .....	19,686	22,500
Neal #4 credits .....	281,832	279,607
Diesel credits .....	224,698	225,821
Consumer penalties .....	5,871	5,023
Miscellaneous income .....	25,110	8,696
TOTAL OPERATING REVENUES	<u>3,554,239</u>	<u>3,421,904</u>
OPERATING EXPENSES:		
Direct costs .....	1,555,856	1,481,813
Operating expenses .....	449,500	466,595
Administrative expenses .....	955,761	989,209
TOTAL OPERATING EXPENSES	<u>2,961,117</u>	<u>2,937,617</u>
OPERATING INCOME	<u>593,122</u>	<u>484,287</u>
NON-OPERATING INCOME (EXPENSE):		
Interest income .....	10,393	6,589
Other income .....	8,538	9,268
Gain on sale of assets .....	(159)	175
Loss on investment .....		(95,731)
Interest expense .....	(180,767)	(225,306)
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(161,995)</u>	<u>(305,005)</u>
INCOME BEFORE CONTRIBUTIONS	431,127	179,282
CONTRIBUTION FROM DEVELOPERS .....		<u>9,581</u>
CHANGE IN NET ASSETS	431,127	188,863
NET ASSETS - BEGINNING OF YEAR .....	<u>9,103,636</u>	<u>8,914,773</u>
NET ASSETS - END OF YEAR	<u>\$ 9,534,763</u>	<u>\$ 9,103,636</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF FUND NET ASSETS  
JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)

ASSETS

	Electric Fund	Water Fund	Total 2011	Total 2010
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents:				
Unrestricted, undesignated .....	\$ 591,882	\$ (12,138)	\$ 579,744	\$ 637,195
Board designated:				
Improvement and extension .....	59,140	143,600	202,740	233,979
Vehicle and equipment funds .....	102,764	55,032	157,796	133,758
Fuel oil fund .....	12,739		12,739	12,675
Community development fund .....	66,159		66,159	69,846
Total cash and cash equivalents	832,684	186,494	1,019,178	1,087,453
Accounts receivable .....	264,990	103,858	368,848	372,689
Inventory .....	513,742	36,989	550,731	548,190
Prepaid expenses .....	28,537	24,754	53,291	42,220
Other receivables .....	46,881	183	47,064	66,912
TOTAL CURRENT ASSETS	<u>1,686,834</u>	<u>352,278</u>	<u>2,039,112</u>	<u>2,117,464</u>
<b>NONCURRENT ASSETS:</b>				
Other assets:				
Purchased service rights - at cost .....	13,470		13,470	13,470
CTS - acquisition costs (net) .....	13,029		13,029	19,827
Bond issue cost (net) .....	4,825		4,825	5,774
Total other assets	<u>31,324</u>		<u>31,324</u>	<u>39,071</u>
Restricted assets:				
Consumers' deposit fund .....	59,092		59,092	59,151
Revenue bond sinking fund .....	37,852	26,536	64,388	64,067
Principal and interest reserve .....		115,618	115,618	115,042
CTS - improvement fund .....	153,239		153,239	188,972
Sewer fund - district and city .....	2,755		2,755	2,268
Loan proceeds for future capital improvements				326,561
Emission allowances .....	17,072		17,072	
Whelan #2 Reserve .....	25,171		25,171	16,544
Engine maintenance .....	25,113		25,113	14,016
Total restricted assets	<u>320,294</u>	<u>142,154</u>	<u>462,448</u>	<u>786,621</u>
TOTAL NONCURRENT ASSETS	<u>351,618</u>	<u>142,154</u>	<u>493,772</u>	<u>825,692</u>
<b>CAPITAL ASSETS:</b>				
Capital assets .....	14,281,920	7,243,474	21,525,394	20,457,435
Accumulated depreciation .....	(6,673,985)	(2,943,999)	(9,617,984)	(9,124,289)
NET CAPITAL ASSETS	<u>7,607,935</u>	<u>4,299,475</u>	<u>11,907,410</u>	<u>11,333,146</u>
 TOTAL ASSETS	 <u>\$ 9,646,387</u>	 <u>\$ 4,793,907</u>	 <u>\$14,440,294</u>	 <u>\$14,276,302</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF FUND NET ASSETS - Continued  
JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)

LIABILITIES AND FUND NET ASSETS

	Electric Fund	Water Fund	Total 2011	Total 2010
<b>CURRENT LIABILITIES:</b>				
Accounts payable .....	\$ 296,979	\$ 10,794	\$ 307,773	\$ 239,928
Accrued employee benefits .....	15,307	13,319	28,626	20,728
Accrued interest .....	9,906	4,567	14,473	17,778
Accrued payroll .....	13,418	8,205	21,623	22,973
Accrued payroll taxes .....	3,303	1,918	5,221	5,630
Accrued sales tax .....	5,302	3,282	8,584	10,146
Accrued property tax .....	14,254		14,254	14,075
Accrued wheeling .....	8,604		8,604	8,683
Consumers' deposits .....	41,866		41,866	42,024
Current portion long-term debt .....	<u>267,364</u>	<u>218,408</u>	<u>485,772</u>	<u>463,989</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>676,303</u>	<u>260,493</u>	<u>936,796</u>	<u>845,954</u>
<b>LONG-TERM DEBT (Note 4):</b>				
Revenue capital notes payable .....	2,607,439	1,847,068	4,454,507	4,790,701
Less current portion above .....	<u>(267,364)</u>	<u>(218,408)</u>	<u>(485,772)</u>	<u>(463,989)</u>
<b>TOTAL LONG-TERM DEBT</b>	<u>2,340,075</u>	<u>1,628,660</u>	<u>3,968,735</u>	<u>4,326,712</u>
<b>TOTAL LIABILITIES</b>	<u>3,016,378</u>	<u>1,889,153</u>	<u>4,905,531</u>	<u>5,172,666</u>
<b>FUND NET ASSETS:</b>				
Invested in capital assets - net of related debt ....	<u>5,000,496</u>	<u>2,452,408</u>	<u>7,452,904</u>	<u>6,869,006</u>
Restricted, expendable:				
Debt service .....	37,852	26,536	64,388	179,109
Capital projects .....	<u>153,239</u>		<u>153,239</u>	<u>188,972</u>
Total restricted	<u>191,091</u>	<u>26,536</u>	<u>217,627</u>	<u>368,081</u>
Unrestricted .....	<u>1,438,422</u>	<u>425,810</u>	<u>1,864,232</u>	<u>1,866,549</u>
<b>TOTAL FUND NET ASSETS</b>	<u>6,630,009</u>	<u>2,904,754</u>	<u>9,534,763</u>	<u>9,103,636</u>
<b>TOTAL LIABILITIES AND FUND NET ASSETS</b>	<u>\$ 9,646,387</u>	<u>\$ 4,793,907</u>	<u>\$14,440,294</u>	<u>\$14,276,302</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)

	Electric Fund	Water Fund	Total 2011	Total 2010
OPERATING REVENUES:				
Residential .....	\$ 1,228,332	\$ 337,928	\$ 1,566,260	\$ 1,478,475
Commercial .....	531,434	328,949	860,383	837,507
Demand .....	508,696		508,696	501,391
Tank lot water sales .....		722	722	2,052
Meter sales .....		9,335	9,335	9,228
Public authorities .....	51,646		51,646	51,604
Water department .....	19,686		19,686	22,500
Neal #4 credits .....	281,832		281,832	279,607
Diesel credits .....	224,698		224,698	225,821
Consumer penalties .....	4,858	1,013	5,871	5,023
Miscellaneous income .....	22,621	2,489	25,110	8,696
TOTAL OPERATING REVENUES	<u>2,873,803</u>	<u>680,436</u>	<u>3,554,239</u>	<u>3,421,904</u>
OPERATING EXPENSES:				
Direct costs .....	1,474,627	81,229	1,555,856	1,481,813
Operating expenses .....	275,666	173,834	449,500	466,595
Administrative expenses .....	630,582	325,179	955,761	989,209
TOTAL OPERATING EXPENSES	<u>2,380,875</u>	<u>580,242</u>	<u>2,961,117</u>	<u>2,937,617</u>
OPERATING INCOME	<u>492,928</u>	<u>100,194</u>	<u>593,122</u>	<u>484,287</u>
NON-OPERATING INCOME (EXPENSE):				
Interest income .....	6,647	3,746	10,393	6,589
Other income .....	5,741	2,797	8,538	9,268
Gain on sale of assets .....	(159)		(159)	175
Loss on investment .....				(95,731)
Interest expense .....	(122,628)	(58,139)	(180,767)	(225,306)
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(110,399)</u>	<u>(51,596)</u>	<u>(161,995)</u>	<u>(305,005)</u>
INCOME BEFORE CONTRIBUTIONS	<u>382,529</u>	<u>48,598</u>	<u>431,127</u>	<u>179,282</u>
CAPITAL CONTRIBUTIONS:				
Contributions from developers .....				9,581
CHANGE IN FUND NET ASSETS	<u>382,529</u>	<u>48,598</u>	<u>431,127</u>	<u>188,863</u>
FUND NET ASSETS - BEGINNING OF YEAR .....	<u>6,247,480</u>	<u>2,856,156</u>	<u>9,103,636</u>	<u>8,914,773</u>
FUND NET ASSETS - END OF YEAR	<u>\$ 6,630,009</u>	<u>\$ 2,904,754</u>	<u>\$ 9,534,763</u>	<u>\$ 9,103,636</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)

	Electric Fund	Water Fund	Total 2011	Total 2010
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers .....	\$ 2,893,451	\$ 683,891	\$ 3,577,342	\$ 3,396,999
Cash paid to suppliers .....	(1,762,148)	(237,758)	(1,999,906)	(1,406,759)
Cash paid to employees .....	(243,718)	(156,791)	(400,509)	(394,888)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>887,585</u>	<u>289,342</u>	<u>1,176,927</u>	<u>1,595,352</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets ....	(669,719)	(399,812)	(1,069,531)	(1,239,830)
Contributions received from developers .....				9,581
Revenue bond principal repayment .....	(255,957)	(209,319)	(465,276)	(874,495)
Revenue bond proceeds .....	129,082		129,082	1,200,000
Interest paid .....	(123,162)	(60,910)	(184,072)	(224,685)
Proceeds from sale of assets .....				175
Cash received from cancelled project .....				46,982
Bond issuance costs .....				(6,644)
Restricted bond proceeds utilized .....		326,561	326,561	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(919,756)</u>	<u>(343,480)</u>	<u>(1,263,236)</u>	<u>(1,088,916)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest reinvested .....	(189)	(708)	(897)	(982)
Interest received from investments .....	6,647	3,746	10,393	15,857
Cash received from other income .....	5,741	2,797	8,538	
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>12,199</u>	<u>5,835</u>	<u>18,034</u>	<u>14,875</u>
NET INCREASE (DECREASE) IN CASH	(19,972)	(48,303)	(68,275)	521,311
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR .....	<u>852,656</u>	<u>234,797</u>	<u>1,087,453</u>	<u>566,142</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 832,684</u>	<u>\$ 186,494</u>	<u>\$ 1,019,178</u>	<u>\$ 1,087,453</u>



MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS - Continued  
FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)

	Electric Fund	Water Fund	Total 2011	Total 2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income .....	\$ 492,928	\$ 100,194	\$ 593,122	\$ 484,287
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation .....	307,533	187,575	495,108	493,391
Amortization .....	6,798		6,798	6,798
(Increase) decrease in operating assets:				
Accounts receivable .....	203	3,638	3,841	(9,616)
Inventory .....	(8,469)	5,928	(2,541)	658,774
Prepaid expenses .....	(2,365)	(8,706)	(11,071)	19,060
Other receivables .....	20,031	(183)	19,848	(22,808)
Consumer deposits .....	59		59	4,168
Bond issuance costs .....	949		949	869
CIS improvement fund .....	35,733		35,733	(55,649)
Sewer fund - district and city .....	(487)		(487)	7,715
Whelon #2 reserves .....	(8,627)		(8,627)	8,394
Emission allowances .....	(17,072)		(17,072)	
Engine Maintenance .....	(11,097)		(11,097)	(12,016)
Increase (decrease) in operating liabilities:				
Accounts payable .....	74,404	(6,559)	67,845	(4,635)
Accrued employee benefits .....	1,066	6,832	7,898	1,260
Accrued payroll taxes .....	(577)	168	(409)	1,293
Accrued payroll .....	(2,376)	1,026	(1,350)	22,973
Accrued sales tax .....	(991)	(571)	(1,562)	1,728
Accrued property tax .....	179		179	(10)
Accrued wheeling .....	(79)		(79)	(6,260)
Consumer deposits .....	(158)		(158)	(4,364)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 887,585</u>	<u>\$ 289,342</u>	<u>\$ 1,176,927</u>	<u>\$ 1,595,352</u>

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The financial statements of Milford Municipal Utilities (Utilities) include the Electric and Water enterprise funds which provide services to the residents of the City of Milford. Milford Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore it does not include financial information concerning the Utilities.

For financial reporting purposes, Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (b) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

**Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets reports three categories of net assets:

Invested in Capital Assets, Net of Related Debt - consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Expendable Restricted Net Assets - result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - consist of net assets not meeting the definition of the two preceding categories. Unrestricted Net Assets often have constraints on resources imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Fund Financial Statements**

Major individual enterprise funds are reported as separate columns in the fund financial statements. The Utilities report the following major enterprise funds:

Electric Fund - The Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounts of Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise funds, the Utilities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utilities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of six months or less.

Accounts Receivable

Accounts receivable and revenue are recorded at the time service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which service is provided. Accounts are reviewed annually; accounts considered uncollectable are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2011.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are stated at cost. The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling, and transportation has been capitalized.

Replacements and betterments of capital assets are included in capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant .....	20 - 50
Equipment .....	7 - 20
Distribution System .....	20 - 67

Other Assets

Common Transmission System (CTS) acquisition costs are being amortized on a straight-line basis over 25 years, and are presented at the net value.

Loan costs related to issued capital notes are being amortized on a straight-line basis over 7 years, which approximates the effective interest method, and are presented at the net value.

Current Liabilities

Accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. The Utilities' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Utilities' financial statements for the year ended June 30, 2010 from which the summarized information was derived.

Budgets and Budgetary Accounting

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford.

Subsequent Events

The Utilities has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

**2. CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS**

The Utilities' deposits in banks at June 30, 2011, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest Rate Risk - The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the utilities.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2011

**3. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2011 was as follows:

	Electric Plant			
<u>Electric Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land .....	\$ 58,654			\$ 58,654
Construction in progress .....	<u>2,027,592</u>	<u>\$ 470,142</u>	<u>          </u>	<u>2,497,734</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>2,086,246</u>	<u>470,142</u>	<u>          </u>	<u>2,556,388</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings .....	401,592			401,592
Machinery and equipment .....	739,776			739,776
Accessory electric equipment	1,183,487			1,183,487
Neal #4 .....	1,297,496	8,989	\$ 1,573	1,304,912
Common transmission system	1,707,543	105,556		1,813,099
Distribution Plant:				
Distribution facilities .....	5,401,930	52,178		5,454,108
Street lights and signal systems	263,351	6,680		270,031
General Plant:				
Transportation equipment .....	386,669	26,174		412,843
Other equipment .....	<u>145,683</u>	<u>          </u>	<u>          </u>	<u>145,683</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	11,527,527	199,577	1,573	11,725,531
Less accumulated depreciation ....	<u>6,367,865</u>	<u>307,533</u>	<u>1,414</u>	<u>6,673,984</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>5,159,662</u>	<u>(107,956)</u>	<u>159</u>	<u>5,051,547</u>
TOTAL CAPITAL ASSETS - NET	<u>\$ 7,245,908</u>	<u>\$ 362,186</u>	<u>\$ 159</u>	<u>\$ 7,607,935</u>

Construction in progress at June 30, 2011 consisted of costs associated with substation and distribution system upgrades and construction of a 69kV transmission line.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2011

**3. CAPITAL ASSETS - Continued**

Capital assets activity for the year ended June 30, 2011 was as follows:

	Water Utility Plant			
<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land .....	\$ 58,144			\$ 58,144
Construction in progress .....		\$ 345,916		345,916
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>58,144</u>	<u>345,916</u>		<u>404,060</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings .....	3,193,217	44,044		3,237,261
Intakes .....	85,410			85,410
Equipment .....	1,134,504			1,134,504
Mains .....	1,210,210	2,595		1,212,805
Wells .....	198,130			198,130
Storage and Distribution Plant:				
Towers .....	481,619			481,619
Mains, hydrants, and service ..	219,540	200		219,740
Meters .....	237,139	7,057		244,196
General Plant:				
Tools and work equipment .....	<u>25,749</u>			<u>25,749</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	6,785,518	53,896		6,839,414
Less accumulated depreciation ....	<u>2,756,424</u>	<u>187,575</u>		<u>2,943,999</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>4,029,094</u>	<u>(133,679)</u>		<u>3,895,415</u>
TOTAL CAPITAL ASSETS - NET	<u>\$ 4,087,238</u>	<u>\$ 212,237</u>		<u>\$ 4,299,475</u>
TOTAL BUSINESS TYPE CAPITAL ASSETS - NET				
	<u>\$11,333,146</u>	<u>\$ 574,423</u>	<u>\$ 159</u>	<u>\$11,907,410</u>

Construction in progress at June 30, 2011 consisted of costs associated with distribution system upgrades.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2011

**4. LONG-TERM DEBT**

A summary of the changes in long-term debt for the year ended June 30, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Electric Fund:					
Series 2008 revenue notes .....	\$1,674,449		\$ 98,924	\$1,575,525	\$103,933
Series 2009 revenue notes .....	1,059,865		157,033	902,832	163,431
Series 2011 revenue notes .....		\$ 129,082	-	129,082	-
Total electric revenue notes	<u>2,734,314</u>	<u>129,082</u>	<u>255,957</u>	<u>2,607,439</u>	<u>267,364</u>
Water Fund:					
Series 2003 revenue notes .....	733,356	-	76,868	656,488	80,704
Series 2005 revenue notes .....	<u>1,323,031</u>	-	<u>132,451</u>	<u>1,190,580</u>	<u>137,704</u>
Total water revenue notes	<u>2,056,387</u>	-	<u>209,319</u>	<u>1,847,068</u>	<u>218,408</u>
 TOTAL REVENUE NOTES	 <u>\$4,790,701</u>	 <u>\$ 129,082</u>	 <u>\$ 465,276</u>	 <u>\$4,454,507</u>	 <u>\$485,772</u>

The resolutions concerning the issuance of the above noted revenue notes all include requirements for the Utilities to maintain Sinking and Reserve Funds. United Community Bank, the sole holder of the notes, has waived these fund requirements. The notes also include requirements that user rates will be established to produce and maintain net revenues at a level not less than 125% of the amount of principal and interest on notes falling due in the same year. During the year ended June 30, 2011, the Water Utility did not comply with this requirement.

**Electric Fund**

During the year ended June 30, 2008, the Utilities issued electric revenue notes (Series 2008) in the amount of \$1,900,000 for the construction costs related to improvements and extension to the Municipal Electric Utility. The notes accrue interest of 4.95% with monthly payments required of \$14,965.38, including interest. The final monthly payment at maturity on January 1, 2013 is a lump sum payment of \$1,429,065, including interest.

During the year ended June 30, 2010, the Utilities issued electric revenue notes (Series 2009) in the amount of \$1,200,000 for the construction costs related to improvements and extension to the Municipal Electric Utility and to refund the Series 2007 Revenue Notes. The notes accrue interest of 4.00% with monthly payments required of \$16,381, including interest, and mature July 1, 2016.

During the year ended June 30, 2011, the Utilities issued electric revenue notes (Series 2011) in the amount of \$2,243,000 for the construction costs related to improvements and extension to the Municipal Electric Utility. The notes allow the Utilities to request advances, which will accrue interest of 3.75%, and requires interest only payments until November 1, 2012. Monthly payments of principal and interest will commence on December 1, 2012 and end on May 1, 2026. The notes will accrue a five-year adjustable interest rate based on five-year U.S. Treasury Bonds maturing most closely to July 1, 2016 and July 1, 2021, respectively, plus 125 basis points.



MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2011

**4. LONG-TERM DEBT - Continued**

**Electric Fund - Continued**

The Series 2008, 2009, and 2011 notes are secured by future revenues of the Electric Utility.

A summary of the Electric Fund's June 30, 2011 long-term indebtedness with established principal repayments is as follows:

	<u>Series 2008 Revenue Notes</u>		<u>Series 2009 Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012 .....	\$ 103,933	\$ 75,652	\$ 163,431	\$ 33,139
2013 .....	1,471,592	41,716	170,089	26,480
2014 .....			177,019	19,551
2015 .....			184,231	12,339
2016 .....			191,736	4,833
2017 - 2021 .....			16,326	54
Total	<u>\$1,575,525</u>	<u>\$117,368</u>	<u>\$ 902,832</u>	<u>\$ 96,396</u>

**Water Fund**

On June 24, 2003, the Utilities issued a water revenue note (Series 2003), in the amount of \$1,200,000. The note accrues a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2008 and July 1, 2013, respectively, plus 100 basis points. The rate adjusted from 3.50% to 4.34% on July 1, 2008. The note requires monthly payments of \$8,579, including interest, and matures February 1, 2019.

On May 25, 2005 the Utilities issued water revenue notes (Series 2005) in the amount of \$1,800,000. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2010 and July 1, 2013, respectively, plus 25 basis points. The rate adjusted from 4.25% to 2.21% on July 1, 2010. The notes require monthly payments of \$13,433, including interest, and mature July 1, 2013.

The Series 2003 and Series 2005 notes are secured by future net revenues of the Water Utility.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2011

**4. LONG-TERM DEBT - Continued**

**Water Fund - Continued**

A summary of the Water Fund's June 30, 2011 long-term indebtedness is as follows:

	<u>Series 2003 Revenue Notes</u>		<u>Series 2005 Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012 .....	\$ 80,704	\$ 26,899	\$ 137,704	\$ 24,923
2013 .....	84,278	23,326	140,778	21,848
2014 .....	88,009	19,594	143,921	18,705
2015 .....	91,905	15,698	147,134	15,492
2016 .....	95,974	11,629	150,419	12,207
2017 - 2020 .....	<u>215,618</u>	<u>10,361</u>	<u>470,624</u>	<u>16,168</u>
Total	<u>\$ 656,488</u>	<u>\$107,507</u>	<u>\$1,190,580</u>	<u>\$109,343</u>

**5. PENSION AND RETIREMENT BENEFITS**

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary, and the Utilities are required to contribute 6.95% of covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$26,946, \$25,963, and \$23,487, respectively, equal to the required contributions for each year.

**6. RATES**

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Effective June 20, 2011, the Electric Utility increased user rates for all consumption by 5% per year for three years.

Effective December 17, 2011, the Water Utility will increase user rates for all consumption 10% per year for three years.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2011

**7. LEASES**

Under a joint ownership agreement with other utilities, the Electric Utility has a 0.347% undivided interest in a 640 MW electric generation station known as George Neal Generating Station No. 4. The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The revenues from such leases are included in operating income. The Utility's investment in these facilities is included in capital assets and is set forth in Note 3. Operating costs associated with this plant and depreciation are reflected in the statement of activities. The lease of the Neal 4 plant is a long-term commitment based on capacity. The amount is determined by a formula based on usage and totaled \$271,997 and \$272,043 for 2011 and 2010, respectively.

The Electric Utility's 0.347% ownership interest in George Neal Generating Station No. 4 represents a total investment of \$1,304,912 included in utility plant in service with \$1,160,643 included in accumulated depreciation.

**8. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Milford Municipal Utilities operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are seven active and no retired members in the plan. Participants must be age 55 or older and meet certain other requirements at retirement. Benefits terminate upon attaining Medicare eligibility. Coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy. It is anticipated retiree premiums will be fully offset by monthly contributions.

The Utilities did not record or disclose the net annual required contributions for other postemployment benefits (OPEB) or the OPEB net obligation as required by GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions. The amount by which this departure from accounting principles generally accepted in the United States of America would affect liabilities, net assets, and expenses is not reasonably determinable.

**9. COMPENSATED ABSENCES**

Employees of the Utilities accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred in the government-wide and enterprise fund financial statements and computed based on rates of pay in effect at June 30, 2011.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement, or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2011

**10. RELATED PARTY TRANSACTIONS**

The Utilities had business transactions between the Utilities and a Utilities official totaling \$2,113 during the year ended June 30, 2011.

**11. RISK MANAGEMENT**

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**12. COMMITMENTS**

The Electric Utility has entered into construction contracts totaling \$1,629,606 for electric improvements. As of June 30, 2011, costs of \$877,051 have been incurred on the project. The remaining \$752,555 will be paid as work on the project progresses.

## **REQUIRED SUPPLEMENTARY INFORMATION**

MILFORD MUNICIPAL UTILITIES  
BUDGETARY COMPARISON SCHEDULE OF  
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Actual</u>	<u>Original/ Final Budget</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUE:			
Charges for services .....	\$3,554,239	\$3,679,000	\$ (124,761)
Non-operating .....	<u>18,931</u>	<u>22,581</u>	<u>(3,650)</u>
TOTAL REVENUE	<u>3,573,170</u>	<u>3,701,581</u>	<u>(128,411)</u>
EXPENSES:			
Electric .....	2,503,662	2,706,069	202,407
Water .....	<u>638,381</u>	<u>725,389</u>	<u>87,008</u>
TOTAL EXPENSES	<u>3,142,043</u>	<u>3,431,458</u>	<u>289,415</u>
NET CHANGE IN NET ASSETS	431,127	270,123	<u>\$ 161,004</u>
NET ASSETS AT BEGINNING OF YEAR .....	<u>9,103,636</u>	<u>9,250,633</u>	
NET ASSETS AT END OF YEAR	<u>\$9,534,763</u>	<u>\$9,520,756</u>	

MILFORD MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the Utilities.

In accordance with the Code of Iowa, the Milford Municipal Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. All Utilities' disbursements are included in business-type activities function. During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted.

## **OTHER SUPPLEMENTARY INFORMATION**



MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND  
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
DIRECT COSTS:		
Distribution Maintenance .....	\$ 9,069	\$ 20,806
Equipment maintenance .....	16,770	25,904
Neal #4 charges - coal, oil, power generator .....	332,386	302,369
Purchased power .....	6,562	5,660
Purchased power - NIMECA .....	700,527	651,621
Purchased power - WAPA .....	392,182	368,098
Wheeling .....	<u>17,131</u>	<u>17,090</u>
TOTAL DIRECT COSTS	<u>1,474,627</u>	<u>1,391,548</u>
OPERATING EXPENSES:		
Salaries .....	241,342	267,954
Small tools and supplies .....	7,522	8,578
Sub-contractor .....	421	6,567
Vehicle expense .....	26,350	19,653
Miscellaneous operating expenses .....	<u>31</u>	<u>4,277</u>
TOTAL OPERATING EXPENSES	<u>275,666</u>	<u>307,029</u>

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND - Continued  
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ADMINISTRATIVE EXPENSES:		
Advertising .....	\$ 90	\$ 5,471
Amortization .....	6,798	6,798
Bad debts .....	4,451	3,669
Building maintenance - office .....	9,698	13,195
Building maintenance - mowing .....	3,784	4,204
Community development .....	18,071	48,749
Computer repairs and maintenance .....	5,686	5,329
Computer supplies and programs .....	4,308	3,552
Depreciation .....	307,533	308,156
Director fees .....	4,221	5,276
Dues and subscriptions .....	5,137	5,334
Education and safety .....	3,704	1,377
Employee benefits .....	37,662	42,874
Insurance - general .....	35,528	31,824
Laundry and uniforms .....	1,339	1,139
Legal and professional .....	23,952	22,240
Maintenance - office equipment .....	21	338
Miscellaneous .....		36
Office supplies .....	8,545	7,167
Payroll taxes - FICA and IPERS .....	34,358	34,853
Postage .....	5,798	5,211
Property taxes .....	14,433	15,234
Rebates .....	22,663	20,979
Supplies .....	415	675
Sales tax paid .....	69,819	68,737
Telephone .....	3,417	3,622
Travel .....	806	3,966
Utilities and sanitation .....	1,846	2,008
Inventory adjustment .....	(3,501)	1,201
TOTAL ADMINISTRATIVE EXPENSES	<u>630,582</u>	<u>673,214</u>
 TOTAL	 <u>\$2,380,875</u>	 <u>\$2,371,791</u>

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND  
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
DIRECT COSTS:		
Distribution Maintenance .....	\$ 3,168	\$ 9,413
Equipment maintenance .....		4,849
Lab .....	7,623	11,116
Plant maintenance .....	2,854	167
Product - chlorine and fluoride .....	32,198	34,216
Purchased power .....	30,466	28,591
Sewer charges .....	4,920	1,913
TOTAL DIRECT COSTS	<u>81,229</u>	<u>90,265</u>
OPERATING EXPENSES:		
Salaries .....	157,817	149,907
Small tools and supplies .....	808	834
Sub-contractor .....	12,712	4,062
Vehicle expense .....	2,480	3,998
Miscellaneous operating expenses .....	17	765
TOTAL OPERATING EXPENSES	<u>173,834</u>	<u>159,566</u>

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND - Continued  
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ADMINISTRATIVE EXPENSES:		
Advertising .....	\$ 90	\$ 163
Bad debts .....	1,176	1,072
Building maintenance - office .....	643	772
Building maintenance - mowing .....		1,956
Community development .....	667	1,643
Computer repairs and maintenance .....	4,787	3,243
Computer supplies and programs .....		
Depreciation .....	187,575	185,235
Director fees .....	3,392	3,082
Dues and subscriptions .....	823	1,347
Education and safety .....	3,178	832
Employee benefits .....	26,017	22,654
Insurance - general .....	19,850	19,649
Laundry and uniforms .....	1,097	745
Legal and professional .....	9,494	6,717
Maintenance - office equipment .....		338
Miscellaneous .....		42
Office supplies .....	7,774	7,171
Payroll taxes - FICA and IPERS .....	21,701	20,441
Postage .....	5,145	5,342
Supplies .....	523	587
Sales tax paid .....	29,814	31,355
Telephone .....	1,290	922
Utilities and sanitation .....	1,704	697
Inventory adjustment .....	(1,561)	(10)
TOTAL ADMINISTRATIVE EXPENSES	<u>325,179</u>	<u>315,995</u>
 TOTAL	 <u>\$ 580,242</u>	 <u>\$ 565,826</u>

**WINTHER, STAVE & CO., LLP**  
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Milford Municipal Utilities  
Milford, IA 51351

We have audited the financial statements of the Milford Municipal Utilities as of and for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Milford Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Milford Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weakness have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Milford Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Milford and other parties to whom the Milford Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Winther, Stave & Co., LLP*

October 31, 2011

MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011

**Part I: Findings Related to the Financial Statements**

**Instances of Noncompliance:**

No matters were noted.

**Internal Control Deficiency:**

I-A-11 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2011

**Part II: Other Findings Related to Required Statutory Reporting**

- II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted in the business type activities function.
- II-B-11 Questionable Disbursements - No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-11 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.
- II-D-11 Business Transactions - Business transactions between the Utilities and a Utilities' official are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Studer, Board Member, Owner of Excel Auto Body	Maintenance and repair	\$ 2,113

Recommendation - The transaction exceeds \$1,500 and may represent a conflict of interest. The Utility should consult legal counsel to determine the disposition of these matters.

Response - The Utilities' attorney will be asked to comment on this transaction.

Conclusion - Response accepted.

- II-E-11 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-11 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-11 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-H-11 Revenue Notes - The Utilities has not complied with a water revenue note resolution. The Utility does not meet the sufficiency of rates required by bond resolutions.

Recommendation - The Utility should increase rates sufficient enough to meet the bond resolution requirements.

Response - We have established rate increases of 10% per year for the next three years to bring rates in compliance with bond resolution requirements.

Conclusion - Response accepted.